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MINISTRY OF FINANCE, ECONOMIC STABILIZATION AND NATIONAL POLICIES

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எனது இல } BD/CBP/01/01/03-2023
My No }

ඔබේ අංකය }
உமது இல }
Your No }

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திகதி } 04.08.2023
Date }

National Budget Circular No. : 04/2023

All Secretaries to Ministries
Chief Secretaries of Provincial Councils
Heads of Departments
Chairpersons of State Corporations, University Grant Commission and Statutory Boards

BUDGET CALL - 2024

Guidelines for the Preparation of Annual Budget Estimates - 2024

1. Background

1.1 Since 2022, Sri Lanka has undergone an unprecedented, catastrophic and deep crisis, which led to severe and far reaching economic, social and political consequences. The fallout of the crisis has impacted the entire society, with disproportionate impacts particularly felt by the poor and the vulnerable. In response to the crisis, the government initiated a committed and focused reform drive to implement long delayed but much-needed reforms, supported by an Extended Fund Facility (EFF) programme from the International Monetary Fund (IMF), with a futuristic vision to implement tough structural reforms to restore stability and drive forward sustainable growth. Consequently, having surpassed an extremely challenging period of turbulence in 2022, the Sri Lankan economy is gradually showing signs of stability on many economic fronts, supported by the aforementioned reforms, with initial indications of moving out of recession towards recovery and eventually growth.

1.2 However, there is no room for complacency and no margin for error to deviate from the envisaged reform path by reverting to unsustainable policies and practices of the past. Given the nascent recovery and prevailing vulnerabilities, the consequences of such a shift would be devastating. Hence, the focused reform process should be strictly maintained with strong commitment to prevent a recurrence of an economic crisis, restore the unfulfilled economic growth potential, and eliminate structural constraints related thereto.

1.3 Despite the gradual improvements observed in many areas, including the primary balance of the government budget, the fiscal sector still faces serious and complex issues with no fiscal

space to accommodate many requests for funding due to the scarcity of fiscal resources. Hence, it is critically important that government expenditures are managed carefully and efficiently, considering the limited fiscal space and the need for channeling scarce resources for essential areas while making all efforts to efficiently manage expenditure. Overall, the public finances of the country should be managed with utmost care, discipline, and accountability.

1.4 Accordingly, specific attention needs to be paid to formulate the Budget 2024 within the medium-term framework 2024-2026, based on the fiscal targets and the medium and long-term structural reform agenda of the government, including the macroeconomic adjustments under the IMF supported EFF programme. The purpose of this Circular is to provide the necessary guidelines in that regard. In particular, it is critical that the Budget 2024 focuses on the expeditious implementation of announced as well as planned reforms to secure economic recovery and drive the country towards achieving a higher, green and sustainable economic growth, going forward.

2. Medium-Term Macroeconomic Trajectory: 2024-2026

2.1 In view of the long-term vision of becoming a high-income country by the year 2048, it is expected that the economy of Sri Lanka will stabilize and completely recover during the first 5 years that includes the 2024-2026 period. Accordingly, all government agencies should focus on economic reforms that will ensure further economic stabilization and recovery, whilst addressing the issues that inhibit a sustainable and high economic growth.

2.2 In accordance with the medium-term macroeconomic targets under the IMF EFF, the primary balance of the budget, which is estimated to be a deficit of 0.7 percent of the gross domestic product (GDP) in 2023, needs to be increased to a surplus of 0.8 percent of GDP in 2024, in order to reach a surplus of 2.3 percent of GDP in the year 2026. This has to be achieved through a combination of revenue enhancing and expenditure rationalization policies.

2.3 For various reasons, the Government revenue performance in 2023 up to present has not been in line with the expected targets, which will lead to a significant shortfall in the Government revenue in the year 2023. Therefore, to reach the targeted primary balance of the budget, the government expenditure should be managed prudently while continuing the stringent expenditure control measures and giving specific focus on estimating expenditure for the year 2024 using the zero-based budgeting approach, aiming at curtailment of expenditures appropriately.

3. Preparation of Expenditure Estimates for the Year 2024

3.1 "Making a transformational change through minimum inputs" which has hitherto not received enough attention by the spending agencies, should be made as the common goal of every government institution in formulation of the budget for the year 2024, while ensuring that value for money is generated on expenses, always.

3.2 In that respect, due attention should be paid to fiscal consolidation based on automation and digitization in delivery of public services, introduction of a cost-reflective pricing methods,

making revenue administration efficient and organizing of government activities to minimize costs.

3.3 Regarding public investment and infrastructure development projects, efforts should be made to strengthen public-private partnership and encourage the private sector (inviting business proposals), use of renewable energy, prioritizing the use of modern technology and digitization. In evaluating such projects, the criteria of investment capacity, employment generation, export contribution, economic contribution and sustainability should be given the prominence.

3.4 In the preparation of estimates under the social security program, curtailment of administrative expenses, prevention of corruption and expenditure savings generated by avoidance of duplication as a result of the digitalization programmes that have already commenced, should be reflected. The database of the Welfare Benefits Board should be used as far as possible in allocating benefits under various subsidies, welfare programmes and development assistance.

3.5 Due attention should be paid to reduce the adverse impact of public enterprises on the government budget. Measures should be taken to strengthen financial discipline in order to minimize the weak financial control by public enterprises, eliminating their management inefficiencies and prompt implementation of public enterprise reform measures that have already been initiated.

3.6 Based on a Cabinet decision, 10 Public Expenditure Review Committees (PERC) were appointed to review the expenditure of 10 Ministries, with a Zero-based Budgetary Approach, for which the highest amount of provisions are allocated from the Government Budget. The recommendations of the Committees will be submitted to the Cabinet of Ministers. Accordingly, it is expected that the respective ministries will pay attention to the implementation of the reforms outlined in the recommendations of the respective PERC, when preparing the budget estimates for the year 2024.

3.7 As the 2024 budget estimates are proposed to be carried out with a Zero-based Budgetary Approach, all spending agencies should pay special attention to the following matters while preparing the budget estimates.

- i. Carrying out only activities that are relevant to the performance of the core functions assigned to the respective ministries and in order to withdraw from performing irrelevant tasks, assigning such tasks gradually to the appropriate institutions.
- ii. Implementation of development programmes and projects by departments and institutions under the coordination of the ministry instead of direct implementation of development programs and projects by ministries.
- iii. Creating an environment to manage activities through resource sharing between sections within the institutions and between institutions whenever possible.
- iv. Consulting the service providing agencies in connection with the activities pertaining to development projects, prior to the commencement of those activities (for example: Provincial Land Commissioner, Divisional Secretary, Ceylon Electricity Board,

National Water Supply and Drainage Board, Department of Wildlife Conservation etc.). Commencing those activities after reaching prior agreements on taking expeditious implementation action and elimination of any encumbrances through discussion/prior agreement with those institutions is essential.

- v. Conducting independent monitoring and evaluations on the results and performances of at least mega-projects with large costs and taking necessary corrective actions.
 - vi. Consolidation of entities/divisions of which functions are duplicated or abolition of entities performing similar functions and are no longer required.
 - vii. Reviewing all subsidy programs for their compatibility with the current conditions of the country and reorganizing these programmes so that benefits are channeled only to the essential beneficiaries and working together with the Welfare Benefits Board to that end.
 - viii. Carrying out an institution level self-cadre review, abolishing the positions of which functions are duplicated and no longer required, deploying the staff only for the core functions of the concerned institution as far as possible.
 - ix. Update the service charges for the service delivery.
4. In addition, expenditure estimates for the year 2024 should be prepared in adherence to the following instructions.

4.1 Capital Expenditure

i. Development Expenditure

- (a) It is mandatory to provide information requested in relation to the development expenditure to be included in the Budget 2024, in the formats contained in Annexures 1 and 2.
- (b) When preparing the estimates of development projects, provisions should be split out in terms of the standard object codes under each sub-project. For, instance, if a project consists with building construction, purchase of machineries, software development etc., budgetary provisions of the relevant sub project should be split out under the respective standard object code.
- (c) New projects should not be included since it will be difficult to find adequate financing to commence new projects within the Medium-Term Budgetary Framework 2024-2026.
- (d) Close attention should be paid to the recommendations made by the "Re-strategizing and Acceleration of Mega Projects Committee (RAMP)" and the "National Operation Room (NOR)" regarding the ongoing projects as well as the decisions made by the Cabinet of Ministers based on those recommendations.
- (e) Provision should not be included for the continuation of projects that are further continued with local funds after the termination of the period of such

projects that were commenced either as a budget proposal or upon foreign financial assistance.

- (f) Calling for business proposals for projects in the form of direct investment from the private sector or projects having potential for Public-Private-Partnerships is encouraged. In that respect, business models capable of covering the expenditure as far as possible through revenue generated from the projects, should be developed.
- (g) Public-Private-Partnerships Projects subject to settlement of the total cost of a project through annuity payments made to the relevant private party by the Government, should not be commenced.
- (h) Special attention should be paid to the use of renewable energy, the use of modern technology and digitalization in development projects.
- (i) In case of new projects to be commenced upon the government's policy guidance, provisions should be included only for new projects approved by the Cabinet of Ministers with the recommendations of the "National Development Committee" under the methodology outlined in Budget Circular No. 03/2023.
- (j) As the development projects which have been ceased due to non-payment of debt are required to be resumed, after completion of the debt restructuring process, necessary provisions to meet the obligations and liabilities of such projects are made with the concurrence of the Department of External Resources and the Treasury Operations Department.

ii. Institutional capital expenditure

- (a) The restrictions imposed on the purchase of vehicles by the National Budget Circular No. 03/2021 will remain in effect for the year 2024 as well.
- (b) The purchase of new furniture, office equipment and accessories for public institutions should be limited as much as possible in the year 2024 as well.
- (c) Instead of using office equipment such as printers, photocopiers, computers separately for individual use/division use, such equipment should be pooled and used so as to get maximum benefit from the minimum amount of equipment.
- (d) No provision shall be included under capacity development for foreign trainings that have to be paid from the Consolidated Fund. Such training requirements should be fulfilled through virtual methods and local institutions.
- (e) Provision for local trainings should be included only if such trainings are required under service minutes, recruitment procedures and provisions of circulars.

iii. Maintenance, Rehabilitation and Improvements

Due attention should be paid on allocating essential provisions for maintenance, rehabilitation and improvement. Accordingly, when preparing capital estimates, priority should be given to safeguard existing assets and maintaining proper public services.

Especially, it is necessary to specify and get allocated the provisions required for maintenance of highways, railways, hospitals, schools, main dams and reservoirs, anicuts, canals, and irrigations under a proper maintenance plan.

iv. Utilization of Provincial Council Mechanism with Maximum Efficiency

Provisions should not be included under line ministries or departments for functions directly assigned to Provincial Councils. In order to avoid overlapping programmes/projects carried out by line ministries and departments at regional level with Provincial Council programmes/projects, plans should be prepared in coordination with Provincial Councils.

Further, since an institutional system exists under the Provincial Councils with a substantial deployment of staff, the Provincial Council structure should be used whenever possible to deliver services of line ministries/departments/institutions with the agreement of Provincial Councils, as much as possible.

4.2. Recurrent Expenditure

The following matters should be considered when estimates for recurrent expenditure are prepared.

i. Salaries, Wages, Overtime and Other Allowances

- (a) New recruitments will not be made to the Public Service in the year 2024. Hence, no allocations will be made for the said purpose.
- (b) Salaries, wages and other allowances for the year 2024 should be calculated separately for each officer based on the actual number of employees as at 30.06.2023, whereas the details should be prepared at institutional level and submitted in line with the format in Annexure 3. Details of the officers who are allocated budgetary provisions under object code 1503 – personal emoluments, should also be submitted separately in this format, for respective institutions.
- (c) Provisions required for filling up essential vacancies, as per the decisions of the Cabinet of Ministers, pursuant to the recommendations of the Officials' Committee appointed by the Cabinet of Ministers under the Chairmanship of the Secretary to the Prime Minister to review the recruitment process in the public service, should be obtained by consulting the Department of National Budget in terms of the progress of such recruitment.

ii. Development Subsidies and Welfare Expenditure

As the government has decided to broadly look into welfare programmes, when budget estimates for year 2024 are prepared, no provision should be included for any subsidy or welfare programme implemented on decisions taken at institutional level, except for those programmes implemented by virtue of any law or with the approval of the Cabinet of Ministers.

iii. Introducing Several New Recurrent Expenditure Object Codes and Item Codes

The expenses incurred for cleaning services, security services and software maintenance as a whole are significant at present. Therefore, 3 new Object Codes have been introduced under the maintenance expenditure and service categories as follows, in order to disclose those expenses. The expenditure should be indicated by using the relevant new object codes, when recurrent expenditure estimates are prepared.

Maintenance Expenditure

1304 - Software Maintenance

Services

1405 - Cleaning and Janitorial Services

1407 - Security Services

In addition, all institutions should submit estimates using the following items under vote 1202-Fuel and vote 1203-Food and Uniform.

1202 - Fuel

- 002 Fuel Allowance
- 009 Fuel for Pool Vehicles
- 010 Fuel for Other Purposes

1203 - Diet and Uniforms

- 001 Diet
- 002 Uniforms

1409 - Other

- 138 Machinery and Office Equipment Service Agreements
- 139 Vehicle Insurance
- 140 Miscellaneous Services Expenditure

4.3. Advance Account Activities

Estimates pertaining to Public Officers' Advance Accounts should be submitted in the format given in Annexure 4. Institutions maintaining commercial advance accounts should submit estimates related thereto, in an appropriate format containing adequate information.

4.4 Preparing Budget Estimates in line with Sustainable Development Goals

The legal framework required to achieve sustainable development goals has been set out by the Sustainable Development Act No. 19 of 2017. The government's focus has been directed towards identifying the manner in which the provisions have been allocated through the budget estimates, in order to achieve sustainable development goals by the year 2030. Therefore, it has become imperative to tag the 2024 budget with the Sustainable Development Goals.

The Sustainable Development Council has issued classification guidelines containing the necessary guidance and instructions to tag expenditure estimates according to 17 Sustainable Development Goals and 169 objectives. The guidelines can be downloaded from the Sustainable Development Council Website <https://sdc.gov.lk/>. According to those guidelines, all the budgeted expenditure programs and projects should be aligned with the sustainable development goals and objectives through the Focal Point Officers already identified for this purpose in your institutions with the technical support of the Sustainable Development Council. Soft copy of budgetary information so compiled should be submitted to the Sustainable Development Council email address info@sdc.gov.lk with a copy to the Department of National Budget.

Special attention should be paid to gender responsiveness in preparing the annual budget since the goal No. 05 of the Sustainable Development Goals aims at gender equality and empowerment of all women and girls.

4.5. Order of priority for provision of allocations

Provisions will be provided in the following order of priority.

- (a) Provisions required to maintain essential public services and maintenance activities
- (b) Provisions required for accounting or settlement of liabilities/commitments
- (c) Completing the work that has been almost completed
- (d) Provisions for the next stage of projects/programmes that have been commenced.
 - I. Completing only critical tasks of partially completed projects and making those projects operational.
 - II. Making arrangements for ensuring the safety of the works which have been completed so far in relation to the projects that have been decided to be suspended.
 - III. Carrying out further steps of projects.
- (e) Provisions for projects implemented under foreign assistance that are supposed to be recommenced with the completion of debt restructuring process.

All the institutions for which provisions are made through budget estimates should follow these instructions.

4.6. Submission of Expenditure Estimates

Considering the above, you are kindly requested to submit all the duly prepared Annexures on or before 23rd August 2023. The submission of estimates should be carried out through the Integrated Treasury Management Information System (ITMIS), using the version 2024 EXP_ES for expenditure estimates and the version 2024 ADV_ES for Advance Account estimates. It is

mandatory to enter the Annual Budget Estimates for the year 2024 and projection of Budget Estimates for the years 2025 and 2026 within the Medium Term Budgetary Framework for 2024-2026. In addition, hard copies of such documents should be submitted to the relevant staff officer of the Department of National Budget. If any assistance is required while entering data in to the ITMIS, please contact ITMIS helpdesk officers on 011-2484999.

5. Submission of Revenue Estimates

The Department of Fiscal Policy will issue a separate Circular containing guidelines on the submission of revenue estimates in due course.

6. Clarifications

If any further clarification is required, please contact the relevant staff officer of the Department of National Budget, who is in charge of the subject holding responsibility over your Ministry/ Department/ Institution.



K.M. Mahinda Siriwardana
Secretary to the Treasury

- Copies to:
- i. Secretary to the President
 - ii. Secretary to the Prime Minister
 - iii. Secretary to the Cabinet of Ministers
 - iv. Auditor General
 - v. Secretary, Finance Commission

Details of Expenditure Estimates with Provisions allocated as Sub-Projects / Items under Capital Expenditure

Ministry/ Department

Serial No.	Name of the Project	Vote Particulars of Allocation ^(a)	Approval ^(b)	Year of Commencement of the project	Expected Year to Complete the Project	Total Estimated Cost ^(c)	Cumulative Expenditure up to 30.07.2023	Expected Expenditure in the coming period of the year 2023	Provisions required for the year 2024	Cumulative progress as at 30.07.2023 (Physical)	Estimate	
											2025	2026
Rs. Million												

Notes

- (a). Mention "New" if it is a new project
- (b). Insert No. 1 for a Cabinet Approval, No. 2 for a Department of National Planning approval and No. 3 for a budget proposal as the case may be.
- (c). Total Cost Estimate currently approved by the Cabinet of Ministers for the project should be mentioned

BUDGET ESTIMATES -2024
Project Summary (To be completed for each development project)

- 1 **Expenditure Head and No.**
 2 **Sub-Project Name & No.**
 3 **Vote Particulars**
 4 **Nature of Approval (Pl. refer to Note 2)**

- 5 **Objectives of the Project**
 (In brief in 3-5 lines)

- 6 **Activity Sheet (List)**
 (Describe 5-10 activities in brief)

1
2
3
4
5

7	Project indicators	2022	2023	2024	2025	2026
	Performance Indicators					
	1					
	2					
	3					
	4					
	5					
	Project Cost (Rs. Million)	2022	2023	2024	2025	2026
	Recurrent Expenditure					
	Personal Emoluments					
	Other Expenditure of Recurrent Nature					
	Capital Expenditure					
	Domestic Financing (Codes 11 and 17)					
	Foreign Financing (Codes 12, 13, 14, 15 and 16)					
	Total					

- 8 **Cadre Details of the Project Management Unit**

Serial No.	Designation	Number

- 9 **Details on vehicles under the Project Management Unit**

Vehicle Category	Number
Car	
Jeep	
Double Cab	
Van	
Bus	
Three Wheeler	
Motor Bicycle	
Other	

Notes:-

- 1 In the case of expenditure incurred under the annual allocation without setting a time limit at present, a review of the relevant work should be carried out and a date should be fixed for setting targets and completion.
- 2 Nature of the approval - According to the total cost estimates of projects, approval of either the Cabinet of Ministers or the Department of National Planning should be obtained in order to be implemented. Otherwise, it should have been identified as a budget proposal to be implemented within a specific period of time. Accordingly, the date and number of the relevant Cabinet Decision and/or letter of the Department of National Planning should be mentioned. In the case of a budget proposal, the relevant year and proposal number should be indicated.

**Advance Account Activities for the Budget Estimate - Year
2024**

Public Officers Advance Account activities

Name of the Ministry / Department / District Secretariat:

Advance "B" Account No.:

No. of Permanent Employees as at 30.06.2023		xxx		
No. of contract & Casual Employees as at 30.06.2023		xxx		
Total No of Employees	A	<u>xxx</u>		
<u>Festival & special Advance</u>				
Festival & special Advance per Employee (10,000+4,000)			14,000	
Total Allocation Required for festival & Special Advance (A x 14,000)	B		xxxxxx	
<u>Distress Loan</u>				
No. of Employees in Senior/ Tertiary/Secondary Level	C		xxxx	
Distress Loan per Employee in Sen./Ter./Sec. Level			250,000	
Total Allocation required for distress loan for the Employees in Sen./Ter./ Sec. Level (C x 250,000)	D		xxxxxx	
Total Basic salary for the employees in Primary level per month	E		xxxx	
Total allocation required for the employees in primary Level (E x 10)	F		xxxxxx	
Total Allocation Required (B+D+F)				xxxxxxx
Existing debit Balance in Advance "B" A/C as at 30.06.2023				(xxxxxxx)
Remaining Provision available in advance "B" A/C as at 30.06.2023				(xxxxxxx)
The balance amount required to pay the loans and advances	G			<u>xxxxxxx</u>
				<u>Recommended Figures</u>
Required Maximum Expenditure Limit for the Year 2024	G		xxxxxxx	xxxx
Total Receipt for the period 01.01.2023 – 30.06.2023			xxxx	
Average receipt per month			xx	
Expected receipt for the year 2023			xxxx	
Required Minimum Limit for Receipts for 2024				xxxx
Balance in Advance "B" A/c as at 01.01.2023			xxxxxx	
Expected total expenditure for the year 2023			xxxx	
Expected total receipts for the Year 2023			(xxxxxxx)	
Expected Balance as at 31.12.2023			xxxxxxx	
Required total expenditure for 2024			xxxxxxx	
Required total receipts for 2024			(xxxxxxx)	
Required Maximum Limit for Debit Balance for 2024			xxxxxxx	xxxxxxx

Date:

.....
Signature
Head of the Department